



Australian Property Institute and
Property Institute of New Zealand

TECHNICAL INFORMATION PAPER - VALUATION OF ACCOMMODATION HOTELS

Reference ANZVTIP 7 – Valuation of Accommodation Hotels

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Owner *National Manager – Professional Standards*

Australian Property Institute
6 Campion Street
Deakin ACT 2600

Telephone: 02 6282 2411
Email: national@api.org.au
Website: www.api.org.au

Property Institute of New Zealand
Level 3, Gleneagles House
69 The Terrace
Wellington

Telephone: 0800 698 258
Email: national@property.org.nz
Website: www.property.org.nz

Contents

Technical Information Papers	4
Valuation of Accommodation Hotels	4
1.0 Introduction.....	4
1.1 Purpose	4
1.2 Status of Technical Information Papers	4
1.3 Scope of this Technical Information Paper	5
1.4 Role of the Valuer	5
1.5 Basis of Valuation.....	5
1.6 Interests	6
2.0 Compliance.....	6
2.1 Statement.....	6
2.2 Accepting an Instruction	6
3.0 Review of Improvements	6
3.1 Key Factors	6
3.2 Specialised Features.....	7
4.0 Repair and Condition.....	7
4.1 State of Repair.....	7
4.2 Refurbishment.....	7
4.3 Capital Expenditure	7
5.0 Approvals and Authorities.....	7
5.1 Building and Planning.....	7
5.2 Non-Compliance.....	7
5.3 Licences	7
5.4 Legislation	8
6.0 Trading Performance.....	8
6.1 Accounts.....	8
6.2 Summary of Detailed Figures	8
6.3 Expenses/Outgoings.....	8
6.4 Trading Levels.....	8

6.5 Business Mix.....	8
6.6 Operational Review.....	8
7.0 Trading Environment.....	9
7.1 Benchmarking	9
7.2 Competition	9
7.3 Current State of Industry	9
8.0 Management Agreement/Tenancy Details	9
8.1 Commentary.....	9
9.0 Earnings Potential.....	10
9.1 Sustainable Net Return	10
9.2 Existing Agreement	10
9.3 Projections	10
9.4 Upgrades/Capital Expenditure	10
9.5 Cashflow.....	10
9.6 Changes.....	10
9.7 Variation.....	11
9.8 Analysis.....	11
10.0 Market Commentary.....	11
10.1 Purpose	11
10.2 Market Conditions	11
11.0 Sales Evidence	11
11.1 Sales Analysis	11
11.2 Trading Performance	11
11.3 Relativity of Sale.....	11
11.4 Recent Sales History.....	12
12.0 Management Agreement/Tenancy Details	12
12.1 Vacant Possession	12
12.2 Leases, Plant and Equipment	12
12.3 Leasehold Title	12
12.4 Impact of Valuation.....	12
12.5 GST Caution.....	12
13.0 Effective Date	12

Technical Information Papers

The principal objective of a Technical Information Paper (TIP) is to reduce diversity of practice by identifying commonly accepted processes and procedures and discussing their use. A TIP is designed to be of assistance to property professionals and informed users alike.

A TIP will do one or more of the following:

- provide information on the characteristics of different types of asset that are relevant to the advice,
- provide information on appropriate practices and their application, provide information that is helpful to property professionals in exercising the judgements they are required to make in specific situations.

A TIP does not:

- provide training or instruction,
- direct that a particular approach or method should or should not be used in any specific situation.

The contents of a TIP are not intended to be mandatory. Responsibility for choosing the most appropriate approach is the responsibility of the property professional based on the facts of each task.

Whilst TIPs are not mandatory, it is likely they will serve as a comparative measure of the level of performance of a Member. They are an integral part of “Professional Practice”.

The reader should understand that legislation may change and whilst this TIP is accurate and relevant at the time it was completed, relevant referred reading and legislation should be investigated at the time of relying on this TIP.

Valuation of Accommodation Hotels

1.0 Introduction

1.1 Purpose

The purpose of this Technical Information Paper (TIP) is to detail commonly accepted processes and procedures for the Valuation of Accommodation Hotels and to discuss the use of these processes and procedures.

1.2 Status of Technical Information Papers

The contents of a TIP are not mandatory. Responsibility for choosing the most appropriate approach is the responsibility of the property professional based on the facts of each task.

Nevertheless, it is likely they will serve as a comparative measure of the level of performance of a Member and therefore they are an integral part of “Professional Practice”.

1.3 Scope of this Technical Information Paper

This TIP applies to Members who undertake valuations of Accommodation Hotels on behalf of known clients with whom those Members or their employers have entered into the appropriate Valuation Services Agreement. This TIP should be read in conjunction with other TIPs and/or API/PINZ Practice Standards, which are either over-arching or directly applicable to the issues raised in this TIP.

TIPs are intended to embody for API Members recognised 'competent professional practice', and for PINZ Members, recognised 'best practice'. Therefore a TIP may (although this should not be assumed) assist an API Member to act in a competent professional manner, or a PINZ Member to practice to a level that meets best practice, if properly applied. While TIPs are not mandatory, it is likely that Members who have regard to and apply the guidance provided by TIPs will be able to evidence that they have acted in a competent professional (API) or to a level that meets best practice (PINZ). The API and PINZ do not warrant that anything contained in this or any TIP is the definitive and/or final statement on any issue raised in the TIP. Members must perform their own work pursuant to their own professional expertise and experience.

Where recommendations are made in this TIP for Members to undertake a specific professional task, these are intended to represent 'competent practice' for API Members and 'best practice' for PINZ Members, i.e. recommendations that in the opinion of the API and PINZ, as the case may be, would meet practice accepted by peer professional opinion. Although Members are not required to follow the recommendations contained in the TIP, they should take into account the following points.

When an allegation of professional negligence and/or breach of a statutory duty is made against a Member, a court or tribunal will almost always take account of the contents of any relevant TIP published by the API and PINZ in deciding whether or not the Member acted to a standard as required by law.

In the opinion of the API and the PINZ, a Member conforming to the practices recommended in this TIP should have at the very least a partial defence to an allegation of negligence and/or other alleged breach, if they have followed those practices. However, Members have the responsibility of deciding when it is inappropriate to follow a TIP.

It is for each Member to decide on the appropriate procedure to follow in any professional task. However, where Members do not comply with the practice recommended in this TIP, they should do so only for a good professional reason and it is recommended that Members record for their own purposes why they did not comply with something contained within a TIP. Members may wish to seek legal and/or other advice before embarking on a path of non compliance with practice recommended in a TIP. In the event of a legal dispute, a court or tribunal may require them to explain why they decided not to adopt the recommended practice.

1.4 Role of the Valuer

The Valuer needs to demonstrate in a report an understanding of the operation of the subject property, the operator and/or lessee, the Hotel's market place, competition and any unique features it possesses.

1.5 Basis of Valuation

The valuation should clearly state whether it reflects the terms of an Operating or Management Agreement, or an occupational lease or whether the valuation is on a vacant possession basis. It

should also state whether it has been undertaken as a 'going concern' on a 'Walk In Walk Out' basis inclusive of all plant, equipment, furniture and fittings but excluding stock.

1.6 Interests

The Valuer should be aware of the different interests in a property, and should apply the same valuation principles to all interests based on the term of the management agreement or lease.

2.0 Compliance

2.1 Statement

A valuation of a property defined in 1.3: Scope of this Guidance Note should state that it complies with this Guidance Note.

2.2 Accepting an Instruction

Prior to accepting an instruction, a Valuer must be confident of having the necessary expertise and sufficient information to undertake the valuation. For example, if the Valuer does not have complete or appropriate access to comparable sales and trading data, then the valuation instruction should be declined, or undertaken in conjunction with a Valuer who has the expertise and access to such information.

3.0 Review of Improvements

3.1 Key Factors

The improvements need to be considered in the context of their specialist use, with the following being examples of relevant factors:

- summary of room numbers by size/type/aspect
- location and adequacy of kitchen(s)
- appropriateness of food and beverage outlets
- size, location and appearance of entrance lobby and front desk
- layout and capacity of meeting rooms
- back of house facilities
- other facilities (e.g. Health Club, pool, etc.)
- on-site car parking (numbers/adequacy)
- vertical transportation (number and size of passenger and service lifts)
- building operational and management system (HVAC/operable windows/security, etc.)
- technological facilities (e.g. visual display units, communication/media access facilities)

3.2 Specialised Features

The Valuer should consider the design characteristics and appeal of the property, including unique or specialised features that may impact upon the viability of operation, value and marketability.

Factors to be considered include the efficiency of the layout in relation to guest servicing and labour costs, back of house servicing and adequacy of storage space (wet/dry/cold rooms).

4.0 Repair and Condition

4.1 State of Repair

Comment on the state of repair of the improvements of the property, including any outstanding works to be completed, and any modification or maintenance work required. Make comment upon the condition of Fixtures Fittings & Equipment, back of house equipment (e.g. kitchens), in the context of the Fixtures Fittings & Equipment Reserve.

4.2 Refurbishment

Comment on the feasibility and extent of possible refurbishment likely to be necessary over a normal investment period. Comment upon economic and functional obsolescence and the need or capability to upgrade improvements.

4.3 Capital Expenditure

The Valuer should provide an estimate of likely required Capital expenditure, in respect to building works/services, refurbishment and Fixtures Fittings & Equipment Replacements. It is acknowledged that this task may be difficult for the Valuer to undertake and that it requires input and guidance from the owner/operator of the facility.

5.0 Approvals and Authorities

5.1 Building and Planning

Where necessary, issues relating to building compliance, heritage, environmental and planning classification should be reviewed and any consequent impact on value fully explained.

5.2 Non-Compliance

Whilst it is acknowledged that the Valuer may not be qualified in these areas, based upon the inspection (noting limitations of such), comment should be made on any possible occupational health and safety requirements or requisitions recommending further inspection by qualified experts where appropriate. In addition, the Valuer should seek from the instructing party details of any notices of non-compliance of which the instructing party is aware.

5.3 Licences

The Valuer should sight and comment on all licences required for the property's operation and note that these are included in the valuation.

5.4 Legislation

Comments are required as to whether the building is compliant with any current and pending legislation. Whilst it is recognised that the Valuer is not an expert in this area, the report should highlight any potential risks in this regard through inspection and inquiry.

6.0 Trading Performance

6.1 Accounts

Where possible, accounts should be presented and analysed in accordance with the Uniform System of Accounts for Hotels. State whether the figures that have been relied upon have been audited.

The Valuer should make a specific notation where relying upon information provided without being able to verify it, and clearly state any consequent limitations to the advice as a result.

6.2 Summary of Detailed Figures

The Valuer should provide a summary of detailed figures for the hotel, showing trading performance for the last 3 years on a departmentalised basis, together with year to date trading figures. Appropriate periodic occupancy and average room rate statistics should be considered and commented upon. Comparison should also be made regarding fair market share with the broader market and STR Competitive Set data.

6.3 Expenses/Outgoings

The Valuer should itemise all expenses/outgoings in schedule form including management, all fixed costs, capital expenditure, and FF&E allowances, where possible in accordance with the Uniform System of Accounts for Hotels. Compare and contrast the current trading with the previous year's actuals, YTD figures versus budget, and comment upon any major variances. These figures should also be compared with appropriate industry benchmarks.

6.4 Trading Levels

The Valuer should comment in detail on the current level of trading being achieved, the stability of the income and the projected maintainable trading performance of the property compared to the operator's projections.

6.5 Business Mix

The Valuer should comment upon the business mix, typically analysed where available by geographical source, market segment and by guest type. Reliance may be had to third party internet reservation sites.

6.6 Operational Review

The Valuer is not expected to carry out a detailed Operational Review, but would be expected to make appropriate comment upon:

- the marketing plan

- budget vs actual performances
- effectiveness of referrals within the operating group

- a fair market share analysis
- profile of operator and branding

7.0 Trading Environment

7.1 Benchmarking

Benchmark the performance of the hotel in comparison to the following:

- accepted market and industry indices,
- comparable and competing properties, to the extent that such data is available as well as identifying any items of revenue/expense which are outside acceptable market parameters.

7.2 Competition

The Valuer should provide full details of current and proposed competition within the catchment area, incorporating demand and supply criteria.

7.3 Current State of Industry

The Valuer should analyse the current state of the hotel and tourism industry and in particular the subject property's target market, and detail any changes (current or anticipated) which may impact on the long term income sustainability and growth potential of the asset. Statistics and research data should be used to highlight trends and as a basis for projections.

8.0 Management Agreement/Tenancy Details

8.1 Commentary

The Valuer should:

- Sight a copy of the Management Agreement/ Operating Lease. A summary of the Agreement / Lease should be incorporated together with commentary on the general market acceptability of its terms and conditions. If these terms are outside typical market practice this should be stated and some commentary on what is considered acceptable should be provided.
- Read and understand all factors in the agreement or lease which could affect value, such as quality and certainty of income, income guarantees and associated clawbacks, break clauses, owner's involvement. The Valuer should also comment on remedies of default, assignability, termination clauses, non-disturbance clauses and the quality of the lease covenants.

- Provide a brief profile on the hotel operator including details of its brands, number of hotels/rooms and geographical spread.
- Investigate and comment upon the existence of any agreements between the owner and manager/operator which may affect value. Similarly, comment upon any agreements between the operator and other properties in the vicinity that may affect the operation of the property, for example, non-compete clauses, shared costs and expenses.
- Where the hotel forms part of a mixed-use project, all leases relating to the property should be reviewed by the Valuer. Tenancy information should be summarised in schedule form. Comment upon the relationship of the hotel with the other components of the property.

9.0 Earnings Potential

9.1 Sustainable Net Return

Calculate the sustainable net return to the owner after reflecting appropriate outgoings. The treatment of Management Fees and FF&E Reserve varies, but as a general guide Valuers should apply as they analyse and reflect the manner in which the market is capitalising. Although net return is typically expressed after Management Fees and FF&E Reserve, an owner operated property may be considered on a 'before fees' basis.

9.2 Existing Agreement

Fees and FF&E provision should reflect any existing Management Agreement, or prevailing market rates. The net return should also be expressed before depreciation, amortisation, interest, tax and Capital Expenditure.

9.3 Projections

Any projections should be in accordance with the 'Uniform System of accounts for Hotels', and preferably undertaken for a period of five years or beyond, reflecting the method adopted to analyse sales.

9.4 Upgrades/Capital Expenditure

Have regard to any upgrading or capital expenditure which would impact on the trading performance of the hotel or its marketability.

9.5 Cashflow

A detailed analysis of the cashflow is an essential requirement. The calculations should be completely self-explanatory. Details of the discount rate, time period, inflation and wage growth factors, etc., should be shown.

9.6 Changes

Comment upon the anticipated changes to outgoings, timing of capital expenditure, particularly significant items (e.g. major contract renewals, rating changes, etc.).

9.7 Variation

Comment on variations between the operator's projections and those assumed by the Valuer, with rationale supporting any variations.

9.8 Analysis

A sensitivity analysis for key variables may be appropriate.

10.0 Market Commentary

10.1 Purpose

This should address the following sectors, as relevant to the specific hotel – global, local (regional), comparison of design features with market demand and competitive supply.

10.2 Market Conditions

This requires both a current and forward looking view (typically 3-5 years) rather than an historic view of market conditions. Typically this commentary should include:

- Investment activity including depth of market and identification of key 'players';
- Building activity including competition and likely additions to supply;
- A discussion of the major drivers of supply/ user demand over the period under review;
- A Valuer should consider a model of future supply and demand to project average occupancies and room rates within the market and to form the basis of a fair market share assessment.

11.0 Sales Evidence

11.1 Sales Analysis

It is not always possible to obtain sufficient information to fully analyse every sale; however, the Valuer still needs an appropriate level of sales that have been adequately analysed in order to arrive at an opinion of value. To simply quote a yield or a room rate from a sale, without first seeking the information to analyse the sale is unsatisfactory.

11.2 Trading Performance

The future trading performance of the adopted sale or sales being analysed should be explored for each sale, in combination with the sale's historic performance. This is required, in order to allow the formation of an acceptable level of consistency between the sale being analysed and the subject property, to allow informed comparison.

11.3 Relativity of Sale

The relativity of each sale should be commented on and explained.

11.4 Recent Sales History

The Valuer should indicate recent sales history of the subject property. Where the property is being transacted, the contract for sale should be sighted and commented upon.

12.0 Management Agreement/Tenancy Details

12.1 Vacant Possession

Where owner occupied properties are valued on a vacant possession basis in existing condition, an indication of net income after management expenses and replacement reserve should also be provided for comparison purposes.

12.2 Leases, Plant and Equipment

The Valuer should comment on leases of plant and equipment where the lease payments for plant and equipment are substantial so as to have a material effect on value if the costs are deducted from income. It is conventional commercial practice for the property to exchange unencumbered and accordingly, the valuation should assume unencumbered transfer, with any intending reliant party making their own enquiry and adjustment for any transferring or assigned HP/Lease agreement.

12.3 Leasehold Title

In cases of hotels held upon leasehold title, the impact of the ground rent on returns/incomes should be fully considered and reflected in the valuation. As with any other leasehold the Valuer may need to consider the value of the hypothetical unencumbered freehold and then consider the value of the Lessors Interest, the Lessee's Interest, and potential Marriage Value of the interests concerned. See separate guidance note on Partial Interests.

12.4 Impact of Valuation

The impact on valuation of the separation of the various title components, related options, obligations and impediments, potential loss of tenure, etc. should be identified and fully explored in relation to both sales and the subject property.

12.5 GST Caution

The Valuer should consider the manner in which similar properties are bought and sold from a GST perspective and adopt the most appropriate treatment of GST accordingly.

13.0 Effective Date

This TIP is effective from:

Australian adoption date: 30 November 2016.

New Zealand adoption date: 1 July 2019 (Earlier adoption is permitted)

The above TIP, ANZVTIP 7, replaces the superseded Guidance Note "ANZVGN 6 Valuations of Accommodation Hotels", which operated from January 2012 to 29 November 2016.